

CABINET

9 NOVEMBER 2010

TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW REPORT 2010/11 – ADDENDUM REPORT

Portfolio Holder: Councillor Alan Jarrett, Finance
Report from: Mick Hayward, Chief Finance Officer
Author: Andy Larkin, Finance Support Manager

Summary

To report on the discussion at the Business Support Overview and Scrutiny Committee held on 4 November 2010 on the Treasury Management Strategy Mid Year Review Report 2010/11.

1. Background

- 1.1 Business Support Overview and Scrutiny Committee met on 4 November 2010 to consider the mid year review of the Treasury Management Strategy 2010/11.
- 1.2 Immediately prior to the Committee meeting the majority of the Overview and Scrutiny Committee attended a Treasury Management training session for Members from the consultants Sector.
- 1.3 The Finance Support Manager introduced a report that set out the Treasury Management Strategy Mid Year Review. It was noted that in line with the Chartered Institute of Public Finance Accountancy's (CIPFA) code of Practice for Treasury Management there should be a review of this strategy at least half yearly.
- 1.4 Members were informed that the Council aimed to achieve the optimum return on investments commensurate with the proper levels of security and liquidity and in the current economic climate it had been considered appropriate to keep investments short term and only invest in highly credit rated financial institutions.
- 1.5 The Finance Support Manger confirmed that there had been no material changes to the table at 3.4 of the report following Sector's review of the interest rate forecast following the Spending Review 2010.
- 1.6 Members noted that there had been one unavoidable breach of the Council's counterparty limits.

- 1.7 It was reported that within the Council's borrowing strategy, due to the very low interest rates being earned on investments and restrictions to mitigate counterparty risk, officers would be repaying existing and deferring taking out new debt.
- 1.8 The Finance Support Manager stated that interest earned on investments is currently around 0.88%, however the budget was predicated on earning 2%. This has inevitably led to a shortfall in income, however, if necessary at year end we can utilise money set aside in a rate equalisation account, mitigate that shortfall.
- 1.9 Members were concerned that the Council had investments in the Spanish bank Santander especially with regard to the economic problems Spain was facing.
- 1.10 The Finance Support Manager reassured Members that the Council had invested in Santander UK, which was a separate company within the Santander Group and that Santander only had about 17% of its interests in Spain. It was also noted that Sector, the Council's investment advisors rated Santander UK as a UK bank as had the previous government.
- 1.11 The Business Support Overview and Scrutiny Committee noted the report and recommended it to Cabinet for consideration along with their comments.

2. Recommendation

- 2.1 Cabinet is asked to consider the comments from the Business Support Overview and Scrutiny Committee.

Lead officer contact

Author: Peter Holland, Committee Co-ordinator, Gun Wharf, 01634 332011
peter.holland@medway.gov.uk